

| | | |
|----------|--|-----------|
| 0 | INTRODUCTION | 1 |
| 1 | Theoretical Overview | 3 |
| 1.1 | Historical review | 3 |
| 1.1.1 | Regime change among developing countries | 4 |
| 1.1.2 | From pegging to composite : reasons | 7 |
| 1.2 | Development of theories | 9 |
| 1.2.1 | The main development of the theory | 9 |
| 1.2.2 | The theory about optimum currency | 11 |
| 1.2.3 | The optimal peg theory | 13 |
| 1.2.4 | Empirical evidence | 15 |
| 1.3 | Regime choice in practice | 15 |
| 1.3.1 | The nature of shocks | 16 |
| 1.3.2 | Policy objectives | 20 |
| 1.3.3 | Identifying the characteristics of an economy | 23 |
| 2 | Economic Characteristics of Taiwan | 24 |
| 2.1 | Growth | 24 |
| 2.2 | Financial market | 29 |
| 2.3 | Employment and labor market | 35 |
| 2.4 | Exchange-rate regime and balance of payments | 39 |
| 3 | The Model | 55 |
| 3.1 | Goods market | 56 |
| 3.1.1 | Supply side | 56 |
| 3.1.2 | Demand side | 61 |
| 3.2 | Money and bond markets | 66 |
| 3.3 | Foreign exchange market and stochastic disturbance | 68 |
| 3.4 | Calibration | 74 |
| 3.5 | Results of simulations : 1976 - 1986 | 77 |
| 3.6 | Empirical comparison of parameters | 84 |

| | |
|--|------------|
| 4 Regime Choice | 90 |
| 4.1 Policy rules | 91 |
| 4.2 Evaluation of loss functions | 94 |
| 4.2.1 domestic monetary shock | 95 |
| 4.2.2 domestic real shock | 98 |
| 4.2.3 foreign input shock | 101 |
| 4.3 Loss function once again | 103 |
| 4.4 Sensitivity analysis | 104 |
| 4.5 Conclusion | 107 |
| | |
| Appendix: Gauss Program | 117 |
| | |
| Bibliography | 128 |